

Message Text

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ACTION EB-08

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C O N F I D E N T I A L HAVANA 0058

EO 11652: GDS

TAGS: CU EPAP UR

SUBJ: CUBAN SUGAR TRADE

1. SUMMARY: CHIEF CUBAN SUGAR TRADER, SEPTEMBER 7, PROVIDED DETAILS ON CLEARING ARRANGEMENTS AND HARD CURRENCY SUGAR TRADE WITH USSR AS WELL AS ASSESSMENT OF MARKET PROSPECTS THROUGH 1980. END SUMMARY.

2. USINT OFFICER (GLASSMAN), SEPTEMBER 7, CALLED ON EMILIANO LEZCANT, DIRECTOR OF CUBASUCAR, CUBA'S EXCLUSIVE AGENCY FOR SUGAR SALES IN EAST AND WEST. LEZCANA, A MEMBER OF CUBAN GOVERNMENTAL SUGAR COMMISSION HEADED BY VICE-PRESIDENT DIOCLES TORRALBA, WILL DEPART, SEPTEMBER 8, FOR INTERNATIONAL SUGAR AGREEMENT (ISA) NEGOTIATIONS IN GENEVE. (CUBAN VIEWS ON ISA REPORTED SEPTTEL.)

3. IN COURSE OF DISCUSSION OF USSR-CUBAN SUGAR TRADE, LEZCANO STATED FOLLOWING. THROUGH 1976, CUBA HAD COMMITMENT TO SUPPLY USSR WITH MINIMUM OF 2.5 MILLION METRIC TONS OF SUGAR ANNUALLY. CONFIDENTIAL

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FROM 1977 UNTIL 1980 INCLUSIVE, IN FRAMEWORK OF CLEARING AGREEMENT, CUBA MUST SUPPLY A MINIMUM OF 3 MILLION METRIC TONS PER YEAR.) FOR CLEARING PURPOSES, THERE IS A BASE PRICE (FROM UNSTATED BASE YEAR) OF 30 CUBAN CENTAVOS PER POUND WITH USSR PROVIDING, AS WELL AS PAYING FOR, SHIPPING. EACH YEAR, PRICE WAS ADJUSTED UPWARD (BUT NEVER DOWNWARD) BY A PERCENTAGE EQUAL TO THE ANNUAL PERCENTAGE INCREASE IN TOTAL PRICE OF ALL SOVIET GOODS SHIPPED

TO CUBA UNDER CLEARING AGREEMENT. THIS PRICE ADJUSTMENT CLAUSE APPLIED ONLY TO SUGAR, AND TO NO OTHER CUBAN EXPORT TO THE USSR.

4. LEZCANO SAID THAT IN NOVEMBER-DECEMBER 1976, SOVIETS HAD APPROACHED CUBANS AND ASKED TO PURCHASE 1.6 MILLION METRIC TONS OF SUGAR FOR HARD CURRENCY. PURCHASE WAS NECESSITATED BY FROST KILL OF SOVIET SUGAR BEET CROP. CUBANS TOLD SOVIETS THAT CUBA HAD AVAILABLE ONLY 1 MILLION TONS, BUT CUBA OFFERED TO PURCHASE 600 THOUSAND TONS FOR SOVIETS FROM PHILIPPINES. CUBA CHARGED NO COMMISSION. SOVIETS USED CUBANS AS INTERMEDIARIES BECAUSE OF SUPERIOR CUBAN TRADING CONNECTIONS AND CUBAN CAPACITY TO EXECUTE PURCHASE WITHOUT MARKET BECOMING AWARE. LEZCANO SAID THAT SOVIETS WOULD MAKE FUTURE HARD CURRENCY PURCHASES ONLY IF SOVIET CONSUMPTION REQUIREMENTS SO REQUIRED. SOVIETS, IN EVENT OF SATISFACTORY USSR HARVEST, WERE NOT PREPARED TO ASSIST CUBA WITH HARD CURRENCY PURCHASES IF CUBA COULD NOT PLACE PRODUCTION ON FREE MARKET.

5. LEZCANO STATED THAT, IN VIEW OF PROBABLE ISA FREE MARKET QUOTA ARRANGEMENT, PLANNED INCREASES IN CUBAN SUGAR PRODUCTION WOULD LARGELY BE CHanneLED TO USSR THROUGH CLEARING AGREEMENT MECHANISM. (COMMENT: MINISTER OF FOREIGN TRADE FERNANDEZ FONT MADE SAME POINT AT SEPTEMBER 1 RECEPTION.) CUBANS EXPECT SOVIET SUGAR CONSUMPTION TO INCREASE FROM CURRENT ANNUAL LEVEL OF 32-35 KILOS PER CAPITA TO US/CUBAN LEVEL OF ABOVE 50 KILOS PER CAPITA. IN FREE MARKET, CUBANS EXPECT CORN SWEETENER COMPETITION WILL BE CONFIDENTIAL

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OFFSET, IN PART, BY INCREASE IN CONSUMPTION IN MIDDLE EAST. CUBANS PLAN TO TALK TO JAPANESE ABOUT GREATER SUGAR PURCHASES IN VIEW OF JAPANESE ARGUMENTS WITH AUSTRALIANS ON PRICE. (CUBANS NOW HAVE AGREEMENT WITH JAPAN WHEREBY TOKYO WILL PURCHASE 300 THOUSAND POUNDS ANNUALLY IN 1978, 1979, AND 1980.)

6. TURNING TO OTHER FREE MARKET POSSIBILITIES, LEZCANO VOLUNTERED THAT IMPORTATION OF SUGAR FROM CUBA WOULD BE ADVANTAGEOUS TO US. HE SAID REFINERS WOULD HAVE SOURCE CLOSE TO HOME THAT COULD SERVICE ORDERS QUICKLY, THEREBY REDUCING INVENTORY AND STORAGE COSTS. HE ADDED THAT CUBA HAD CAPACITY TO MEET MOST EXACTING REQUIREMENTS OF REFINERS FOR QUALITY AND COULD ADJUST COMMERCIAL TERMS IN MOST FLEXIBLE MANNER (WORKING WITH FUTURES, CONTACTS, PRICES ON DATE OF SHIPMENT, AND SO FORTH.) WITH REGARD TO ADVANTAGES FOR CUBA, AVAILABILITY OF US MARKET WOULD EASE TRANSPORTATION COSTS AND BURDEN, PLACE CUBA IN ADVANTAGEOUS COMPETITIVE (IF THERE IS NO ISA) OR PROFIT POSITION DUE TO LOWER TRANSPORT COSTS, AND PROVIDE OPPORTUNITY FOR PLACEMENT OF LARGE TONNAGES. DIFFICULTY FOR CUBA WITH US MARKET WAS NEED TO SQUEEZE OUT CUBA'S LATIN AMERICAN PARTNERS IN REPLACEMENT. NONETHELESS, BENEFITS OUTWEIGHTED COSTS. (FYI COCA COLA VICE-PRESIDENT WILL BE SPEAKING WITH LEZCANO IN GENEVA. END FYI)

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